MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BFN 2114 – INVESTMENTS
(ALL SECTIONS)

24 OCT 2017
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. Fundamentalists typically use the "_________" whereas technicians use the "____________" to the valuation process.

a. Bottom-Up Approach; Top-Down Approach
b. Bottom-Up Approach; Multiplier-effect Approach
c. Top-Down Approach; Multiplier-effect Approach
d. Top-Down Approach; Bottom-Up Approach

Q2. Insights Berhad paid a dividend yesterday for RM1.50. They expect to pay dividends annually at a constant 6% annual growth rate indefinitely. If the required rate of return on this investment is 12%, what is the current value of this common stock?

a. RM26.50
b. RM12.50
c. RM13.25
d. RM25.00

Q3. In 2016, Sigma Berhad issued a RM50 par value preferred stock that pays a 6 percent annual dividend. Due to changes in the overall economy and in the company's financial condition investors are now requiring a 7 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?

a. RM42.86
b. RM30.00
c. RM 31.54
d. RM 33.38

Q4. Which of the following are factors that influence an equity investor's required rate of return?

i. The economy's real risk-free rate (RRFR)
ii. The expected rate of return (I)
iii. A risk premium (RP)
iv. The growth rate

a. i, and ii only
b. i, ii and iii only
c. ii, iii and iv only
d. All of the above

Continued...

Q5. Which of the following is **not** a consideration in the three-step valuation process?

a. Analysis of alternative industries
b. Analysis of security markets
c. Analysis of individual companies
d. None of the above (that is, all are considerations in the three-step valuation process)

Q6. If interest rates increase due to inflation, but expected cash flows to a firm do not change, then you would expect stock prices to

a. Rise.
b. Rise and then decline.
c. Remain unchanged.
d. Decline.

Q7. The National Bureau of Economic Research (NBER) has derived the following indicator series in order to monitor business cycles.

a. M2, leading, and lagging.
b. Leading, coincident, and consumer expectations.
c. Leading, coincident, and lagging.
d. Leading, coincident, and M2.

Q8. The growth rate will *most likely* increase if the:

a. Payout ratio decreases
b. Net income increases
c. Retention ratio decreases
d. Return on equity decreases

Q9. The multiplier approach for estimating the intrinsic market value of a major stock market series requires the following step(s):

i. Estimating the future earnings per share for the stock market series
ii. Estimating the appropriate earnings multiplier for the stock market series
iii. Estimating long-run required rates of return and growth rates
iv. Estimating long-run growth rates

a. i and ii above
b. i, ii and iii above
c. All of the above
d. None of the above

Continued...

Q10. The dividend payout ratio for the aggregate market is 60 percent, the required rate of return is 14 percent, and the expected growth rate for dividends is 8 percent. Compute the current earnings multiple.

a. 10
b. 14
c. 4.28
d. 7.5

Q11. The micro approach to estimating the industry multiple would entail examining specific variables such as

a. Dividend Payout Ratios
b. Required Rates of Return
c. Expected rates of dividends and earnings
d. All of the above

Q12. Global industry analysis must evaluate the effects of

i. World supply, demand and cost components for an industry
ii. Different valuation levels due to accounting conventions
iii. Impact of exchange rates

a. i and ii only
b. ii and iii only
c. All of the above
d. None of the above

Q13. Toward the end of a recession,

a. Financial stocks rise on expectations of increases in loan demand, housing constructions and security offerings.
b. Consumer durable stocks rise on expectations of rising consumer confidence and personal income.
c. Capital goods stocks rise on expectation of increases in business capital spending.
d. Basic materials stocks rise on expectation of rising profit margins.

Q14. Cyclical companies are firms where

a. Sales, earnings and cash flows are extremely uncertain and not necessarily related to the economy.
b. Sales, earnings and cash flows are likely to withstand changes caused by the economic environment.
c. Sales, earnings and cash flows are heavily influenced by aggregate business activity.
d. Sales, earnings and cash flows are growing exponentially.

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Q15. Which of the following is **NOT** a competitive force suggested by Porter?

a. Rivalry among existing competitors
b. Threat of new entrants
c. Threat of substitute products
d. Government and regulatory influences

Q16. Which of the following ratios is *least likely* to be impacted by accounting manipulation?

a. Price earnings ratio
b. Return on equity
c. Return on investments
d. Price/Sales

Q17. When a firm seeks to identify itself as unique in its industry in an area that is important to buyers it is known as a

a. Defensive strategy
b. Differentiation strategy
c. Low-cost strategy
d. Focused strategy

Q18. Given Genius Berhad's beta of 1.25 and a risk free rate of 5 percent, what is the expected rate of return assuming a 14 percent market return?

a. 16.25%
b. 17.5%
c. 19.5%
d. 14.25%

Q19. Which of the following are alternative methods to the dividend discount model for the valuation of companies?

i. Price/Earnings Ratios
ii. Price/Asset value Ratios
iii. Price/Sales Ratios
iv. Liquidation or Breakup Value
v. Price/cash flow ratios

a. i, ii and iii only
b. iv only
c. i, ii, iii and v only
d. i, iii, and v

Continued...

Q20. In SWOT analysis, one examines which of the following factors

i. Strenghts
ii. Weaknesses
iii. Opportunities
iv. Threats
v. Turnarounds

a. i and ii only
b. i, ii and iii only
c. i, ii, iii and iv only
d. All of the above

SECTION B (60 marks): Answer ALL questions.

Question 1

(a) You are a portfolio manager meeting a client. During the conversation that follows your formal review of her account, your client asks the following questions:

"My grandson, who is studying investments, tell me that one of the best ways to make money in the stock market is to buy the stocks of small-capitalisation firms late in December and to sell the stocks one month later. What is he talking about?"

You are required to identify the apparent market anomalies that would justify the proposed strategy.

(4 marks)

(b) Discuss weak form and semi-strong efficient market hypothesis (EMH). **(10 marks)**

(c) If the weak form of the efficient market hypothesis is valid, must the strong form also hold? Conversely, does strong-form efficiency imply weak-form efficiency? Illustrate them in a figure or diagram. **(6 marks)**

(Total: 20 marks)

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Question 2

(a) What is the abnormal return for Fuji Pear Berhad when you consider its systematic risk measure? The additional information is as follows:

Actual return: 12.2%
Market return: 15.5%
Alpha: 0
Beta (systematic risk): 0.8

(3 marks)

(b) Differentiate value stocks with defensive stocks. **(5 marks)**

(c) Describe buy and sell signals for a stock with two technical indicators below by indicating x-axis represents time and y-axis represent price. You are required to show them in two separate graphs. Label the graph.

(i) 10 days simple moving averages with current daily price
(ii) Support and resistance levels with breakout

(12 marks)

(Total: 20 marks)

Question 3

(a) The Dow Jones Industrial Average and the Standard & Poor 500 Index have unique characteristics. Discuss how these indices are calculated and any problems or advantages associated with the specific indices. **(8 marks)**

(b) Assume that Takari Berhad will pay a RM2.00 dividend per share next year, an increase from the current dividend of RM1.50 per share that was just paid. After that, the dividend is expected to increase at a constant rate of 5%. If you require a 12% return on the stock, what is the intrinsic value of the stock? **(7 marks)**

(c) The required rate of return of Flexfund Berhad is 12%. The expected return on equity (ROE) is 13% and the expected earnings per share are RM3.60. If the firm's retention ratio is 50%, estimate the price earnings ratio of the company. **(5 marks)**

(Total: 20 marks)

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